Report of the auditor-general to the Limpopo provincial legislature and the council of Makhuduthamaga Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Makhuduthamaga Local Municipality set out on pages xxx to xxx which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Makhuduthamaga Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. With reference to note 32 to the financial statements, the municipality is the defendant in a number of lawsuits. The municipality is opposing the claims as it believes the claims to be fraudulent. The ultimate outcomes of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements

Restatement of corresponding figures

9. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 2015 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

Material impairments

10. As disclosed in note 28 to the financial statements, material losses to the amount of R27 988 970 were incurred as a result of impairment provisions for doubtful debts.

Unauthorised expenditure

11. As disclosed in note 42 to the financial statements, the municipality incurred unauthorised expenditure amounting to R9 053 819 due to overspending on the votes.

Irregular expenditure

12. As disclosed in note 44 to the financial statements, the municipality incurred irregular expenditure amounting to R31 817 244 due to the contravention of supply chain management regulations

Additional matters

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary information

14. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2015:

 - Key Performance Area 2: Basic service delivery and infrastructure development on pages x to x
 - Key Performance Area 3: Local economic development on pages x to x

18. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

19. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

20. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

21. The material findings in respect of the selected objectives are as follows:

Basic service delivery and infrastructure development

Reliability of reported performance information

22. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 25% of the targets to assess the reliability of the reported performance information. This was due to limitations placed on the scope of our work by the auditee.

Local Economic Development

Usefulness of reported performance information

Measurability of indicators and targets

23. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 22% of the indicators were not well defined.

24. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 22% of the indicators were not verifiable.

25. Performance targets were not specific in clearly identifying the nature and required level of performance was not measurable, as required by the FMPPI. A total of 22% were not specific.

26. Performance targets should be measurable as required by the FMPPI. We could not measure the required performance for 22% of the targets.

Reliability of reported performance information

27. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 48% of the targets or significantly important targets to assess the reliability of the reported performance information. This was due to limitations placed on the scope of our work by the auditee.

Additional matters

I draw attention to the following matters:

Achievement of planned targets

28. Refer to the annual performance report on page x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs 22 to 27 of this report

Adjustment of material misstatements

29. We identified material misstatements in the annual performance report submitted for auditing on the reported performance information of KPA2: Basic service delivery and infrastructure development and KPA 3: Local economic development. As management subsequently corrected only some of the misstatements, we raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are included in the basis for qualified conclusions paragraphs.

Unaudited supplementary information

30. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. We have not audited these schedules and, accordingly, we do not express a conclusion thereon

Compliance with legislation

31. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

32. The municipality did not establish a performance management system, as required by section 38(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

33. The annual performance report for the year under review did not include measures taken to improve performance as required by section 46 (1)(c) of the MSA.

Annual financial statements and annual reports

34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion

Procurement and contract management

35. Bid adjudication was not always done by committees which were composed in accordance with *Supply Chain Management (SCM) regulation* 29(2).

36. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) and did not qualify for the contract, in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(5)

Expenditure management

37. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Internal control

38. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

39. The accounting officer did not exercise his oversight responsibility to regularly monitor financial and performance reporting, compliance and related internal controls

Financial and performance management

40. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

41. Management did not implement daily and monthly processing controls and as a result, the performance report was not properly reviewed for accuracy.

42. Management did not prepare accurate and complete financial and performance reports that are supported and evidenced by reliable information

43. Compliance with applicable laws and regulation was not adequately reviewed and monitored

Auditor General
Polokwane

30 November 2015

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence